programs). Almost 700 cities and urban counties meet the CDBG eligibility requirements on the basis of population or central city designation and therefore receive aid regardless of need. These communities receive nearly 75 percent of each year's CDBG funds. If these eligibility requirements were tightened to limit CDBG funds to communities with relatively high levels of need and the funding for the program were reduced by one-fourth, outlay savings could reach $1.1 billion a year by 1987 (see Appendix A-450-a).

Similarly, other federal economic development programs often support firms or projects that could probably receive state, local, or private financing instead (see Appendix A-450-b). For example, the Farmers Home Administration (FmHA) Business and Industry program, which now guarantees an annual $300 million in private credit, appears in some instances to be unnecessary to assure private financing; it may therefore have a limited net impact on new investment and employment. Moreover, the FmHA has historically used nearly one-third of its guarantee authority for debt restructuring and ownership transfer--activities that are not necessarily linked to new investment. Similarly, some Economic Development Administration programs (totaling $154 million in 1982 outlays) and Urban Development Action Grants (totaling $500 million in outlays) support endeavors that could receive private credit or be funded locally. All three programs also aid some communities that are in relatively good economic health. Federal assistance for these local development programs could therefore be reduced by as much as one-half or more--for total five-year outlay savings of about $700 million--while the current level of aid for the most distressed areas could be maintained.

Although improved targeting of development aid could yield substantial savings for the federal budget, areas that lose funding might experience some hardship. In some communities, local projects and programs would have to be discontinued. Consequently, the cuts could bring about some erosion of local tax bases and some lost employment opportunities.

Reducing Subsidies for Private Sector Activites

The federal government also extensively subsidizes a variety of private-sector activities in the transportation and development area. Such support takes the form of grants, low-interest loans, loan guarantees, and tax expenditures.

Advocates of federal aid to various private-sector undertakings often point to the public benefits conveyed by the endeavors supported. In many instances, however, federal subsidies may convey few public benefits, or they may have continued long past their usefulness or effectiveness. For example, capital and operating subsidies to the Amtrak passenger rail system will cost the federal government $800 million in outlays during fiscal year 1982. Supporters of Amtrak's subsidies often argue for them on the basis of energy conservation, equitable income distribution, or the provision of emergency transport services. In reality, however, Amtrak's energy-conservation benefits are limited, and its income redistribution effects are minimal. Other federal policies, such as filling the Strategic Petroleum Reserve, would provide more cost-effective insurance against future energy emergencies. Completely eliminating subsidies to Amtrak would reduce 1987 outlays by about $1.1 billion. Smaller savings could be realized, however, through selective route reductions (see Appendix A-400-a).

Similarly, the U.S. shipbuilding industry also benefits from federal subsidies. In 1982, the Maritime Administration (a unit of the U.S. Department of Transportation) will provide approximately $70 million for construction subsidies to shipbuilders and a little over $400 million in operating subsidies to shipowners. These subsidies are justified as contributing to national defense by preserving the nation's maritime industry, which is threatened by foreign competitors that can build and operate ships for about one-half to two-thirds the U.S. cost. In fact, these subsidies support only a small share of U.S. maritime activities. For example, only two to six ships a year, at most, are built with federal subsidies--compared to a national total of 50 ships. Thus, subsidies to the maritime industry could be terminated--for total savings of about $620 million over the next five years--with little loss in public benefits (see Appendix A-400-g).

Federal aid also goes to low-income persons and to the elderly and handicapped, in an effort to promote equitable distribution of available resources. (As such, these activities might more aptly be described as income security programs, discussed in detail in Chapter X). Such programs include direct loans to finance housing for the elderly or handicapped, direct and guaranteed housing loans for low- and moderate-income families in rural communities, and rural rental assistance for low- and moderate-income tenants. While the federal role in ensuring a minimum standard of living for all U.S. residents is generally accepted, there maybe nonetheless some opportunity for adjusting these subsidies to achieve budgetary savings. For example, tenants living in projects financed by the FmHA rental housing program must now contribute a minimum of 25 percent of their incomes toward their housing costs; the FmHA funds the difference at an annual cost of over $100 million. By raising the minimum tenants' share to 30 percent--the percentage to be contributed (by 1986) by tenants assisted by the U.S. Department of Housing and Urban Development (HUD)--five-year savings of over $100 million in outlays could be realized (see Appendix A-370-a). Although this would probably increase the economic hardship experienced by households now receiving aid, it would place tenants in FmHA housing on a footing more comparable with that of HUD-assisted tenants.

Federal credit or loan programs are another potential area for budgetary savings. These programs are designed to make reasonably priced credit available to private-sector borrowers that are not well served by private credit markets; the private market either would not lend to many of these borrowers or would lend at prohibitively high interest rates. These programs therefore effectively subsidize federally preferred activities through lower-than-market rates on either direct loans or federally guaranteed loans. If borrowers are very risky, federal subsidies may actually approach the principal value of the loans themselves because of defaults. The default rates for some of these credit programs are, in fact, quite high. For example, the Small Business Administration (SBA) estimates that it will write off about $180 million in 1982 for defaults on outstanding direct loans (almost as much as the $225 million in new direct SBA loans to be issued this year), while default payments for outstanding SBA-guaranteed loans totaled $472 million in 1981 (appreciably more than the $316 million in direct new loans the SBA issued that year).

Significant budget savings, as well as efficient use of credit resources, could be achieved if federal loans and loan guarantee programs were curtailed. For example, terminating SBA credit activity in 1983 would not eliminate these losses entirely (since outstanding loans would not be affected), but losses could be reduced by about $2.4 billion during the 1983-1987 span (see Appendix A-370-c). 5/

Finally, the federal government often subsidizes private-sector endeavors through tax policies that indirectly assist busi-

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5. For a more complete discussion of federal credit activities, see Chapter XIII.

nesses. For example, small-issue industrial revenue bonds, which finance a variety of enterprises from manufacturing plants to tennis courts, are tax exempt under current federal law. Through the tax exemption, the federal government effectively subsidizes the borrowing costs of private industry. This subsidy will cost the federal government an estimated $1.6 billion (through lost revenues) during 1982. Eliminating tax-exempt status for industrial revenue bonds would reduce future revenue losses for total savings of $6.3 billion during the 1983-1987 span (see Appendix B-370-d). 6/

CONCLUDING COMMENTS

The various actions outlined under the four strategies discussed in this chapter offer the potential for substantial reductions in federal expenditures for transportation and development. If taken together, they could reduce federal spending by at least $10 billion and shrink the budget deficit by more than $16 billion in 1987.

Shifting costs to users, while having a minimal impact on federal outlays, could reduce the federal deficit by as much as $6.0 billion in 1987. Most of these savings--about $4.0 billion--could be achieved by shifting more federal costs to the users of highways, inland waterways, and airways. An additional $1.8 billion could be saved by assessing new user fees on the beneficiaries of federal deep-draft navigation and recreational boating activities. At least $.1 billion more could be saved through increased user fees in the commerce area.

Shifting to other levels of government the financial responsibility for activities that convey essentially local benefits (mainly in the area of transportation) could yield annual budget savings of almost $9 billion by 1987. 7/ Such shifts could have

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6. For a more complete discussion of federal tax policies, see Chapter XII.

7. This $9 billion savings is not necessarily additive with the $6.0 billion savings realized through user fees. This estimbte includes about $4.4 billion in savings from transferring financial responsibility for local highways to lower levels of government while the $6.0 billion savings estimate (from increased user fees) includes about $2.0 billion in savings from shifting all federal costs to highway users.

significant effects on local fiscal conditions and equity, however. These disruptions could be dampened somewhat by phasing in the changes--inevitably delaying the near-term realization of these federal budgetary savings.

Targeting federal expenditures to the neediest areas and populations also holds the potential for significant reductions in the federal budget, particularly for community and regional development programs. Targeting community development grants more narrowly could alone result in annual budget savings of up to $1.1 billion. Moreover, federal expenditures for other community and regional development programs could be reduced by one-half or more, for outlay savings up to $250 million per year. Thus, a concerted effort at targeting federal development expenditures to the neediest areas and populations could reduce the federal budget by as much as $1.3 billion in 1987.

Finally, reducing federal subsidies for private-sector activities could result in annual budgetary savings of at least $4 billion in 1987. Reductions in direct payments or grants for private-sector activities or individuals would result in savings of more than $650 million a year. Further budget reductions of at least $675 million could be realized by reducing federal credit subsidies provided through loan and loan guarantee programs, while eliminating subsidies through tax expenditure programs could result in savings upwards of $2.6 billion.

CHAPTER VIII. EDUCATION, EMPLOYMENT AND TRAINING, SOCIAL SERVICES, AND GENERAL REVENUE SHARING

The federal government provides aid for education, employment and training, and social services through numerous, widely differing programs under budget function 500. Most of the federal aid--except for postsecondary educational assistance--is in the form of federal grants to state and local governments to support activities for which such governments are generally assumed to be primarily responsible. 1/ In these instances, the federal aid is intended to increase the overall level of services provided, to finance services that might not otherwise be available, or to ensure some minimally acceptable level of services for groups designated by the federal government as warranting special attention. Most postsecondary educational assistance, by contrast, is provided directly to students to reduce the financial burden of continuing their education.

In addition to these designated-use programs, the federal government also provides unrestricted fiscal assistance to all general-purpose local governments through the General Revenue Sharing (GRS) program, which constitutes most of budget function 850. Localities may use GRS funds to support education, employment and training, or social service efforts--areas that currently encompass nearly one-half of all local spending--or for any other purpose. 2/

1. In addition to direct assistance programs in these areas, the federal government also subsidizes the wages of certain disadvantaged workers through the Targeted Jobs Tax Credit (TJTC) and subsidizes child day care through the Dependent Care Tax Credit, which reimburses parents for a portion of their work-related expenses for dependent care.

2. General Revenue Sharing is considered here with education, employment and training, and social services programs because local governments are assumed to use much of their GRS funds to support these activities.

BUDGET HISTORY AND PROJECTIONS

Spending for all education, employment and training, and social services programs together rose sharply during the past decade, but expenditure increases began to slow in the last few years, even before the absolute-dollar cuts enacted during the first session of the 97th Congress. Spending for General Revenue Sharing, which was initiated in the early 1970s, increased during the middle part of the decade and was cut back at the end of the decade but was unaffected by actions on the 1982 budget. If spending in all these areas increased in coming years at the rates necessary to keep pace with inflation--except where funding is already capped by legislation--outlays would rise by 25 percent between fiscal years 1982 and 1987.

Historical Trends, 1970-1981

Federal outlays for education, employment and training, and social services programs grew from $8.6 billion in fiscal year 1970 to $31.4 billion in 1981 (see Table VIII-1). The sharpest increases occurred during the middle to late 1970s as the federal government expanded the range of state and local governmental functions it helps support and broadened significantly eligibility for postsecondary student assistance. Outlays for GRS first rose and then declined during the decade.

Elementary and Secondary Education. Although few new elementary and secondary education programs were created during the past decade, spending for existing programs rose sharply, increasing from $2.8 billion in 1970 to $7 billion in 1981. Overall, spending increases at least kept pace with general price rises for most of the decade but have fallen behind inflation for the past few years. Spending for the three largest programs--Title I grants for remedial and compensatory education for disadvantaged children, grants for education of the handicapped, and vocational education grants--all grew at rates equal to or well above inflation through 1979, but increases have fallen behind inflation since then.

Postsecondary Education. Spending for postsecondary educational assistance increased nearly fivefold over the last 11 years, rising from $1.4 billion in 1970 to $6.8 billion by 1981. This increase resulted largely from the 1972 creation, and subsequent expansion, of the Pell grant program--which provides direct cash assistance for students from low-income families--and the

TABLE VIII-1. FEDERAL OUTLAYS FOR EDUCATION, EMPLOYMENT AND TRAINING, SOCIAL SERVICES, AND GENERAL PURPOSE FISCAL ASSISTANCE (In billions of dollars)

Major Programs	Actual 1970	Actual 1981	Estimated 1982	Baseline Projection 1983	Baseline Projection 1987
Education, Employment and Training, Social Services					
Elementary and secondary education	2.8	7.0	6.1	6.0	8.0
Postsecondary education	1.4	6.8	6.9	7.7	7.8
Employment and training	1.6	9.2	5.5	5.4	6.9
Social services	2.2	6.5	6.3	6.3	8.1
Other programs a/	0.7	1.8	1.9	1.8	2.0
Pay raises b/	---	---	---	0.1	0.4
Total	8.6	31.4	26.8	27.3	33.4
General Purpose Fiscal Assistance					
General Revenue Sharing	---	5.1	4.6	4.6	5.8
Other Programs c/	0.5	1.7	1.9	2.0	2.9
Total	0.5	6.8	6.5	6.6	8.7

NOTE: Details may not add to totals because of rounding.

a. Includes research and general education aids and other labor services.

b. See Table IV-1, footnote a, for distribution of pay raises.

c. Includes smaller, specific-purpose assistance programs such as federal payments to the District of Columbia and Puerto Rico.

1978 expansion of eligibility for reduced-interest Guaranteed Student Loans (GSLs). Funding for several campus-based student assistance programs also rose during the 1970s.

Employment and Training. Spending for employment and training programs grew sharply from the beginning of the last decade through the middle to late 1970s but has declined somewhat since 1979. Two factors were responsible for the large spending increases: first, the creation in 1973 of the Comprehensive Employment and Training Act (CETA) program, which provides employment and training grants to state and local governments and to nonprofit organizations; and, second, the expansion of CETA public service employment aid during and after the 1974-1975 recession. Outlays for all employment and training efforts rose from $1.6 billion in 1970 to a peak of $10.8 billion in 1979 and declined to about $9.2 billion by 1981. 3/

Social Services. Direct federal spending for social services--covering such activities as child day care, home-based care for the elderly and handicapped, and foster care--rose sharply until the late 1970s, when funding increases began to lag behind inflation. The high-growth years included the creation in 1975 of the Title XX program of block grants to the states--the largest single source of social services spending--and expansion of numerous smaller categorical programs. Overall, social services spending nearly tripled between 1970 and 1981, from $2.2 billion to $6.5 billion. 4/

General Revenue Sharing. The General Revenue Sharing program, enacted in 1972, initially aided all state and general-purpose local governments, regardless of their fiscal capacity.

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3. Tax subsidies to employers hiring designated workers followed this same pattern. Revenue losses under such subsidies rose from $5 million in 1972, when a tax credit for employers who hired certain public assistance recipients was in effect, to $2.5 billion in 1978, when a general countercyclical tax credit for all new employment was added, and then fell to $420 million in 1981 by which time the New Jobs Tax Credit had been replaced by the Targeted Jobs Tax Credit, which focuses on economically disadvantaged workers.

4. Revenue losses for the dependent-care credit rose from $458 million in 1976--the first year it was in effect--to more than $1 billion in 1981.

By 1981, however, relative fiscal conditions had shifted sufficiently that the Congress decided to discontinue aid to state governments while maintaining support for cities, counties, and townships. Appropriations for GRS rose from $5.3 billion in 1972 to a peak of $6.9 billion by 1978 but were cut to $4.6 billion in 1981 when aid to state governments was ended. 5/ Outlays in 1981 will slightly exceed this level, however, because actual spending lags appropriations somewhat.

The 1982 Budget Decisions

The reconciliation act of 1981 and appropriations actions completed to date have significantly reduced funding for education, employment and training, and social services programs but have not affected GRS. As a result of already completed actions, it is estimated that 1982 outlays for all education, employment and training, and social services programs will be $4.6 billion lower than the 1981 level--a 15 percent absolute-dollar reduction and a substantially larger cut after taking account of inflation.

Spending reductions in these areas were accomplished through a combination of reducing aid to less needy jurisdictions and individuals, consolidating existing programs at reduced funding levels, eliminating programs deemed to be ineffective, and simply reducing funding for selected programs. Four of the major reductions are the following: limiting automatic eligibility for reduced-interest GSLs to students from families with incomes below $30,000 while requiring higher-income students to demonstrate financial need; consolidating numerous elementary and secondary education programs into a single, loosely restricted block grant at a reduced level of funding; eliminating the public service employment programs funded under CETA and substantially cutting CETA training assistance; and reducing Title XX social service grants by nearly one-fifth. In the last case, the funding reduction was accompanied by the elimination of a requirement that

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5. Between 1977 and 1979, $3.3 billion in antirecession fiscal assistance was also allocated to state and local governments.

states use their funds to benefit primarily less well-off families. 6/

Baseline Projections, 1983-1987

The CBO projects that, if spending for education, employment and training, and social service programs were allowed to increase at rates sufficient to provide 1982 levels of services in the future--except where funding is already capped by legislation--spending in these areas would grow from $26.8 billion in 1982 to $27.3 billion in 1983 and $33.4 billion by 1987. Spending for General Revenue Sharing remains capped at $4.6 billion in 1983 but, if allowed to increase with inflation after that, would rise to $5.8 billion by 1987. Almost all of these spending increases would be the result of growth in discretionary appropriations.

BUDGET STRATEGIES

If the Congress chooses to reduce spending further in these areas, deciding where and how will involve determining what types of federal support to withdraw from which jurisdictions or individuals. At least two general approaches are available:

- Reducing assistance for some present, less needy recipients, so that remaining aid is directed to the most disadvantaged jurisdictions or individuals; and

- Reducing the federal role more generally in selected areas by trimming ineffective programs or by curtailing activities considered more appropriately the responsibility of other levels of government or the private sector.

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6. Paralleling these spending cuts, the Economic Recovery Tax Act of 1981 made ineligible for the TJTC certain workers who are not economically disadvantaged, while expanding coverage to include persons terminated from federally funded public service employment jobs. That act also increased subsidies provided under the Dependent Care Tax Credit, benefiting primarily middle- and upper-income families.

The first approach--increasing the targeting of present programs--requires judgments regarding which current recipients should continue to receive assistance and which should be expected to be able to finance services with their own resources. The second approach--more generally reducing the federal role in selected areas--requires decisions concerning which programs are least effective or which federally financed services should more appropriately be funded either by other levels of government or by individuals without government aid.

Increasing Targeting

One means of achieving additional savings in the education, employment and training, social services, and revenue sharing area would be to reduce aid only for less needy recipients, reserving what assistance is available for those least able to finance services on their own. This could be done by making better-off jurisdictions or individuals ineligible for aid, by eliminating the untargeted portion of programs, or by requiring that less needy jurisdictions match some share of any federal aid received with their own resources.

Specific options for increasing program targeting include: eliminating the untargeted portion of vocational education assistance; restricting eligibility for in-school interest payments on Guaranteed Student Loans; requiring that less fiscally stressed jurisdictions match a portion of the federal funds provided under CETA; and providing GRS funding only to fiscally stressed local governments.

Further Targeting of Vocational Education Assistance. One example of selectively reducing federal support would be to eliminate funding for the untargeted portion of vocational education assistance. About half of the approximately $700 million expected to be spent in 1982 under the Vocational Education Act (VEA) is unrestricted, so that states and localities may use the funds to support basic programs--principally occupational training courses serving youths who are not generally disadvantaged. The Congress restricts the uses of the remaining funds by targeting them on certain disadvantaged population groups or by mandating certain activities, such as bilingual education and program improvement efforts.

If current expenditures under the VEA were cut in half, retaining only those expenditures that are targeted to support specific federal goals, outlay savings would total $1.5 billion over the 1983-1987 period (see Appendix A-500-b). This would be unlikely to have a seriously adverse effect on state and local programs since the federal contribution to vocational education is already less than 10 percent of total expenditures. There is strong support for basic programs in vocational education at the state and local level, so that their continuation would not likely be threatened by a cutback in the federal contribution. On the other hand, any such cutback could impose some hardship on economically pressed jurisdictions and would probably result in some reduction in vocational education efforts in those areas.

Another means of reducing funding for vocational education would be to fold the current program into the general elementary and secondary education block grant at a reduced funding level. If such an approach were adopted, however, focusing of the currently targeted portion of VEA assistance might be lost unless some set-aside or targeting requirement were imposed within the expanded block grant. But that in turn would reduce local discretion in determining spending priorities--one of the principal benefits claimed of any block grant. The savings under this approach would depend on how sharply vocational education funding was cut back within the expanded block grant.

<u>Eliminating In-School Interest Payments on GSLs for Graduate Students</u>. Outlays for Guaranteed Student Loans (GSLs)--expected to total $3.1 billion in 1982--could be reduced by requiring that graduate students, for whom the full subsidy is probably less necessary, begin to pay interest on their loans from the time they borrow, rather than beginning six months after they leave school as is now the case (See Appendix A-500-d). Currently, all borrowers under the GSL program receive loans at 9 percent interest rates (7 percent if they took out their first loans before January 1, 1981). The federal government pays the private lenders the difference between payments due under that reduced interest rate and what would be due if the loan yielded a market rate of return tied to the federal cost of borrowing. In addition, the government makes all interest payments on behalf of borrowers as long as they are in school. These in-school interest payments currently amount to nearly one-half of the value of the subsidy over the life of the loan.

Eliminating the in-school interest payments for graduate students would still allow those borrowers to repay their loans at 7 or 9 percent interest rates. Under this option, however, the additional subsidy provided by the in-school interest payments would be denied to persons whose advanced education would, presumably, improve their long-term income prospects, making them better able to shoulder the cost of continuing their education. Such a change would reduce federal outlays by about $900 million during 1983-1987.

Requiring Less Fiscally Stressed Jurisdictions to Match a Portion of the Funding Provided Under CETA. An option for further targeting federal aid in the employment and training area would be to require that less fiscally stressed states or localities match some share of their federal CETA grants with their own funds. Such a requirement could then be accompanied by a reduction in total federal funding equal to the amount the less stressed jurisdictions would be expected to provide for themselves. The fiscal strain that any such matching requirement might place on recipient governments could be alleviated somewhat by varying the size of the matching requirement. Requiring that all but the most needy jurisdictions provide some share of total funding would ensure that those jurisdictions able to do so would devote some of their own resources to meeting the needs of their citizens. Such a requirement would, however, carry the risk that some areas might opt out of the program entirely, thereby reducing services to the economically disadvantaged.

One specific option might call for no contribution from the one-third most stressed jurisdictions, while requiring that other jurisdictions contribute one dollar for every four to nine dollars received from the federal government, with the fiscally strongest jurisdictions facing the largest matching requirements (see Appendix A-500-e). Applying this option based on states' fiscal capacities, federal spending for CETA could be reduced by nearly $1 billion during 1983-1987 without reducing services, if all jurisdictions chose to continue to participate. If some jurisdictions dropped out, federal savings would increase while services available locally would decline.

Providing GRS Funding Only to Fiscally Stressed Local Governments. A fourth example of further targeting federal aid would be to provide General Revenue Sharing funds only to fiscally stressed local governments. State governments were dropped from the GRS program in 1981 on the grounds that their fiscal condition no longer warranted general federal aid; a similar argument could be used to eliminate local governments with relatively strong fiscal balances. For example, GRS funding could be cut by a fixed proportion, such as 20 percent, and the remaining funds could be reserved for jurisdictions that had below-average tax bases and above-average tax efforts (see Appendix A-850-a). Or the remaining funds could be distributed to state governments, which could then be authorized to devise strategies for allocating funds among localities. Trimming the program by 20 percent would reduce federal outlays by $680 million in 1983 and by a total of $4.9 billion from 1983 to 1987.

Eliminating less-stressed localities would limit federal spending while ensuring that funds went to jurisdictions most in need of federal assistance. On the other hand, state and local governments have already experienced large reductions in other federal aid programs, and the current downturn in the economy has produced additional stress in many local budgets. Thus, eliminating some jurisdictions' GRS funds could exacerbate the fiscal strain they may already be experiencing.

Reducing the Federal Role in Selected Areas

A second general approach to reducing spending for education, employment and training, social services, and revenue sharing would be to reduce the federal role more generally in selected areas. This could be done either by cutting back programs judged to be ineffective or by withdrawing from policy arenas deemed to be more appropriately the domain of other levels of government or of the private sector. In the case of general reductions in federal aid, recipient jurisdictions or institutions could be partially compensated for funding cuts by being given greater discretion in the use of remaining funds. That, in turn, however, would lessen any assurance that the funds would be used to support national policy objectives.

Examples of ways to reduce the federal role in selected areas include: cutting back funding for the newly created elementary and secondary education block grant, and consolidating and reducing funding for campus-based student aid programs.

Reducing Elementary/Secondary Education Block Grant Funding. Historically, elementary and secondary education has been principally the responsibility of localities and states. This is reflected in the fact that the federal government currently provides only about 9 percent of all funds spent nationally on elementary and secondary education. Furthermore, the great majority of federal aid is allocated among jurisdictions in proportion to the presence of some target student population, such as handicapped persons or the educationally disadvantaged. The use of funds, in turn, is generally limited either to activities serving those students or to locally designed programs serving some federally defined policy goal. One notable exception to this pattern, however, is the Title II elementary and secondary education block grant, authorized under the 1981 reconciliation act and expected to distribute $470 million during 1982. Title II funds are allocated among states solely on the basis of total school-age population, and the money can be used to further the aims of any of the more than 20 programs consolidated into the block grant. These include such diverse activities as basic skills improvement, metric education, and emergency school aid (desegregation assistance).

One option for reducing the federal role in education would thus be to curtail funding under the Title II program (see Appendix A-500-a). Because the program is now only minimally targeted by purpose, it provides largely unrestricted fiscal assistance rather than supporting any specific federal policy interest in elementary and secondary education. Also, because Title II funds are allocated only on the basis of total school-age population and comprise less than one-half of one percent of all money spent by localities for elementary and secondary education, a limited cutback here would likely have little overall impact on school districts' finances. The impact would, however, be greater for fiscally stressed jurisdictions. Cutting funding for this program by 20 percent would reduce federal outlays by more than $400 million during the 1983-1987 period.

Reducing Funding for and Restructuring Campus-Based Student Aid Programs. The federal role in postsecondary education could be reduced without affecting the two largest student assistance programs--GSLs and Pell grants--by cutting funding for three campus-based student aid programs. In 1982, these programs--College Work Study, National Direct Student Loans, and Supplementary Educational Opportunity Grants--will provide about $1 billion to colleges and universities.

The federal role in postsecondary education could thus be curtailed without affecting the largest student assistance programs by reducing funding for the campus-based programs. The resulting cut in benefits might be diminished somewhat if a funding reduction was combined with a consolidation of these programs into a single campus-based student assistance block grant (see Appendix A-500-c). Under such an approach, institutions would be partially compensated for a reduction in aid by being given greater discretion in the use of funds. These institutions, however, already have some discretion to shift funds among present programs. Consolidating these three programs and reducing total funding by 25 percent would lower federal outlays by $40 million in 1983 and by nearly $1.2 billion through 1987.

CONCLUDING COMMENTS

Federal expenditures for education, employment and training, social services, and revenue sharing rose from $8.6 billion in 1970 to $36.5 billion in 1981. In the years immediately preceding the first session of the 97th Congress, however, growth under many of these programs slowed, and, in a small number of cases, absolute-dollar funding reductions were enacted. Budget decisions made during the first session of the 97th Congress cut 1982 spending under education, employment and training, and social services programs by 15 percent from the 1981 level but did not affect General Revenue Sharing.

Further budget reductions could be accomplished in these areas either by reducing aid for the least needy recipients or by reducing federal support for less effective programs or in areas deemed not primarily federal responsibilities. If all of the specific options outlined in this chapter were adopted, federal outlays would be reduced by more than $900 million in 1983. By 1987, annual savings would amount to $2.6 billion, or 7 percent of program costs.

CHAPTER IX. HEALTH

The federal role in health involves assisting targeted groups to obtain access to medical care and supporting biomedical research. 1/ Most federal assistance is in the form of financing privately produced services. Medicare finances care for about 28 million aged and disabled persons, while Medicaid finances services for about 22 million persons with low incomes. 2/ In contrast, the Veterans Administration provides medical care, rather than financing, for veterans with service-connected medical problems or who are elderly or unable to afford care from other sources. A number of smaller programs provide assistance for targeted groups.

A much larger number of people benefit from tax subsidies for medical care, especially from the income tax exclusion for employer contributions to health benefit plans.

BUDGET HISTORY AND PROJECTIONS

Federal spending for health has grown rapidly during the past decade and is projected to continue to grow under current policies. The major factor behind this growth has been the ever-increasing rates of medical service provision in the United States, including, but not limited to, federally financed programs.

Federal health outlays totaled $76.4 billion in 1981, about 12 percent of the budget (see Table IX-1). The largest programs were Medicare and Medicaid, which accounted for $42.5 billion and $16.8 billion, respectively. Funding for health research support was $3.8 billion. In addition, tax subsidies for medical care led to a revenue loss of $25 billion in 1981.

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1. This chapter encompasses the health programs in budget function 550 as well as medical care for veterans (subfuction 703).

2. These two populations overlap somewhat.

TABLE IX-1. FEDERAL OUTLAYS FOR HEALTH (In billions of dollars)

Major Programs	Actual 1970	Actual 1981	Estimated 1982	Baseline Projection 1983	Baseline Projection 1987
Health a/					
Medicare	7.1	42.5	49.7	58.2	103.1
Medicaid	2.7	16.8	17.9	20.1	30.5
Other Health Services	1.3	4.5	3.9	3.7	4.6
Health Research	1.1	3.8	3.8	4.0	5.0
Other	0.9	1.8	1.8	1.7	1.8
Subtotal	13.1	69.4	77.1	87.6	145.0
Medical Care for Veterans b/	1.8	7.0	7.5	7.8	9.1
Pay Raises c/	--	--	--	0.4	2.5
Total	14.9	76.4	84.6	95.8	156.5

NOTE: Details may not add to totals because of rounding.

a. The outlays shown under Health include all those of budget function 550.

b. The outlays shown here include all those of subfunction 703.

c. See Table IV-1, footnote a, for distribution of pay raises. This table includes pay raises for all of function 550 and subfunction 703.

Historical Trends, 1970-1981

Outlays for health care grew dramatically during the 1970s, increasing from $14.9 billion in 1970 to $76.4 billion in 1981. Much of the increase is associated with growth in the Medicare and Medicaid programs.

Medicare. Medicare provides health insurance for 25 million persons aged 65 and over and 3 million disabled persons. It consists of two programs--the payroll-tax-financed Hospital Insurance